CSX
CORPORATION
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The Honorable Daniel R. Elliott III
Chairman, Surface Transportation Board
395 E Street, SW
Washington, D.C. 20423-0001

Dear Chairman Elliott:

Thank you for the opportunity to comment on CSX Transportation's expectations for the remainder of 2013 and the company's ongoing initiatives to meet and exceed customer expectations in the future. I have included responses to your specific inquiries throughout this letter: the company's expectations for the traditional "peak season," preparations to handle increases in demand for key commodities, and ongoing investment in the CSX network.

Overview

CSX is well-positioned to capitalize on increased volume in key markets as the economy slowly recovers. As the company discussed in its second-quarter earnings report, CSX expects more than 80 percent of its markets to remain stable or grow in the third quarter. In fact, CSX is already adjusting to increases in several key markets, including intermodal and crude oil, while maintaining the high levels of service and safety that customers have come to expect.

As the economy continued its slow and steady recovery, CSX experienced a solid first half of the year with increases in intermodal and merchandise shipments that somewhat offset continued declines in coal traffic. CSX is making significant investments into the network to meet the expected 50 percent increase in freight transportation demand that the U.S. Department of Transportation expects by 2040. That investment is made possible by the balanced regulatory approach taken by the STB in recent years. CSX is focused on operating its network safely and efficiently to support America's transportation and logistics needs.

As always, safety is the number one priority at CSX, and the company shares the industry's and FRA's continued focus on ensuring the safe transportation of freight for employees, customers, and the communities in which CSX operates. All tactical and strategic planning, which supports growth and increased demand, is predicated on that commitment.

Operations

Network operations are fluid, with no significant constraints. For the first half of 2013, on-time originations achieved record levels at 91 percent, with on-time arrivals at 84 percent. Terminal dwell in the first half improved six percent over the same period last year to 22.1 hours, while average velocity rose three percent to 23.0 mph.

The Northwest Ohio Intermodal Terminal, operated by affiliate CSX Intermodal Terminals, Inc., continues to alleviate industry congestion in Chicago. Continued strategic investments in the intermodal terminal network will support additional growth. Planning is already under way to expand the Northwest Ohio terminal to serve increasing demand in the region. In addition, CSX Intermodal Terminals completed expansions of the Worcester, Massachusetts and Columbus, Ohio, facilities this year, and expansions are under way in Atlanta, Georgia and Louisville, Kentucky. New terminal construction is in progress in Winter Haven, Florida and Salaberry-de-Valleyfield, Quebec, representing more than $200 million in investment to create additional capacity to meet current and new demand.

Available Resources

Investment in infrastructure is investment in the future of safe, reliable, and privately-funded freight service. The 2013 CSX capital spending plan includes $2.3 billion of investment to replace assets and enhance service for CSX customers facing long-term increases in demand. This year's planned spend builds upon more than $14 billion invested in the network since 2005.

That investment includes significant progress on the National Gateway, the CSX-led $850 million public-private partnership designed to enhance the flow of freight between mid-Atlantic ports and Midwestern consumption hubs. CSX and its state and federal funding partners recently completed the clearances necessary to run double-stacked containers on trains through the Phase One portion of the project, between Northwest Ohio and Chambersburg, Pennsylvania. Customers can now enjoy faster, more efficient service in this corridor. The National Gateway generates significant public benefits by reducing highway maintenance needs and exhaust emissions, creating $36 of benefit for every $1 of public funds invested. Part of Phase Two of the National Gateway involves upgrading the Virginia Avenue Tunnel in Washington, D.C., currently a single-track, single-stack tunnel. In conjunction with the other Phase Two clearances, expanding the tunnel will allow CSX's double-stack intermodal service to run unimpeded between Northwest Ohio and the ports of Virginia, Maryland, and North Carolina. This infrastructure enhancement is particularly important given the changes in shipping patterns that could result from the Panama Canal expansion, expected to be completed in 2015.

CSX currently estimates the company will need to spend a total of at least $1.7 billion on the development and implementation of Positive Train Control, with more than $310 million planned for 2013. Across the industry, estimated costs have grown in the face of a challenging deadline to develop and deploy new technology and new interoperability protocols. At mid-year, CSX had spent a total of approximately $700 million on technology development, signal replacements, and locomotive upgrades to meet the mandate. The railroad industry is seeking a necessary extension to implement PTC safely and allow for continued service to both freight customers and passengers.

CSX ensures that important assets can be returned to the network quickly and efficiently in response to increased demand. Approximately 11,000 cars are currently in storage, representing a mix of covered hoppers and other assets. The storage is primarily related to normal seasonality, particularly with covered hopper cars, but in some cases is a consequence of the still-recovering economy and changes in the coal market. Most of CSX's stored cars can be returned to service immediately if needed. Approximately 200 locomotives are stored, which are able to return to service within several weeks thanks to improved processes. There are approximately 300 CSX employees on furlough or furlough retention boards who could be called back to service quickly if market conditions warrant.

With well-documented demographic changes in the railroad industry workforce, the Class I railroads continue to hire to offset attrition. By 2020, nearly 50 percent of the existing CSX workforce will retire. The company plans to hire approximately 2,000 new railroaders in 2013, many of whom will be military veterans. CSX has a long-standing commitment to hiring America's veterans and reservists. Nearly one in five current CSX employees served in the military and many continue to serve in the Reserve or National Guard.

CSX's 2013 maintenance of way plan includes provisions to invest approximately half of the company's planned capital spend directly into maintaining and replacing existing infrastructure. That spend includes replacing or installing about 360 miles of rail, about 3.3 million wood crossties, and about 3.4 million tons of ballast. Also planned are several bridge rebuilds as well as numerous other reliability projects across the system. These upgrades are decidedly unglamorous investments that are nonetheless essential to operate a safe and reliable network. I urge the STB to remember that without the opportunity to earn adequate revenues to replace existing assets, the railroads cannot continue to deliver safe, reliable, and efficient transportation services to the customers and communities that depend on them while building capacity to meet future demand.

The company continues to anticipate and prepare for inclement weather, recognizing that the relatively calm storm season could change abruptly in the second half of the year. The National Oceanic and Atmospheric Administration predicts an above-normal hurricane season, with a 70 percent chance for between three and five major hurricanes. The devastating impact of Superstorm Sandy last year was met with an outstanding response by CSX employees and partners. As the storm approached, CSX removed vulnerable equipment and pre-positioned portable generators for backup power before suspending rail operations early on October 29. Flooding and power outages complicated the resumption of service, but fewer than four days after the storm full operations resumed. CSX is prepared for future storms of a similar magnitude, and continues to invest in technology to proactively communicate with customers in the event of severe weather or other incidents.

CSX and passenger operators also made significant progress on several projects to expand passenger and commuter options. The SunRail transaction in Florida is complete, and construction is well under way to support increased mobility opportunities for the congested Central Florida region. CSX transitioned the dispatching duties for the Boston to Worcester route to its new owner, the Massachusetts Bay Transportation Authority, thus supporting an expansion of commuter service on that line. CSX, Amtrak, and the State of New York reached an agreement to lease to Amtrak approximately 100 miles of CSX track between Poughkeepsie and Schenectady to enhance passenger service. CSX is currently working with the Metro-North Railroad to ensure the shared trackage does not unnecessarily inhibit commuter or freight service while serving critical needs of the New York City metropolitan area. Where the company has capacity, CSX cooperates with passenger and commuter railroads as well as other government entities to explore shared use of corridors. CSX's participation in these discussions is premised upon four principles – safety for CSX employees and the public, capacity to serve CSX's current and future customers, no subsidy for passenger rail borne by CSX shareholders, and reasonable liability protection against new risks. Every new passenger proposal must adequately address these principles and ensure that passenger operations will not hinder freight service.

Market Updates

Intermodal

The domestic and international intermodal markets represent a significant growth area for CSX. The company is working to capitalize on the nearly nine million domestic truckloads in the East that are candidates for intermodal conversion. CSX's success thus far is built on both organic growth among existing customers and highway to rail conversions as CSX demonstrates the superior value of its services. CSX's highway-to-rail, or "H2R," initiative engages shippers directly to educate them about the economic and environmental benefits of intermodal service, and helps identify links in their distribution chain that would benefit from intermodal service.

While CSX expects growth in its intermodal business in the second half of the year, the company continues to see a more moderate peak season similar to the past several years. Global shipping and logistics patterns continue to evolve, and supply chain management has become increasingly sophisticated. As the Board knows, shippers and retailers now maintain a steady flow of goods year-round to avoid holiday surges or supply interruptions. The gradual recovery of the economy and a generally muted import/export market also are contributing to a modest peak season this year.

Energy Markets

As the price of natural gas and increasing hydraulic fracturing activities for both natural gas and crude oil give rise to a new energy environment, CSX is supporting a diversified energy portfolio that allows the company to capitalize on growth opportunities while continuing to serve key markets. The export coal business continues to experience fluctuations in price and demand, and CSX previously stated publicly that the company expects to move 40 million tons of export coal this year. CSX's traditional coal-consuming customers are finding more and more alternatives with the precipitous drop in the price of natural gas. CSX is adjusting resources as appropriate and amending operating plans to support high-growth markets. Nonetheless, the company remains committed to providing strong service to coal customers.

Crude by rail is a continued growth market for the industry. Following the tragedy in Lac Megantic, Quebec, CSX is working with the FRA and other railroads to learn from the investigation and incorporate any lessons learned into regular operations. Many of the requirements of the FRA Emergency Order and Safety Advisory issued on August 2 were already part of the CSX operating rules and practices. CSX is working in close collaboration with the other major railroads to ensure consistent application across the industry. CSX's operating practices will meet or exceed the FRA's directive.

With intense focus on safety and growth, CSX is well-positioned to serve increased demand for crude oil shipments. CSX offers the premier route into the Northeast, with the ability to reach Eastern refineries from Chicago interchange in less than 48 hours. Railroads are, and will continue to be, an essential part of the transportation and logistics of this emerging energy market, which has the potential for enormous economic benefits, including promoting U.S. energy independence and supporting a manufacturing renaissance. Railroads meet a need where other modes of transportation do not exist or are impractical to use. CSX is investing in its crude oil network, including upgrades to its River Line between Selkirk, New York, and Northern New Jersey, to better serve existing and future crude oil customers.

Hydraulic fracturing inputs, like specialized sand and drilling materials, are also contributing to CSX's energy market growth. CSX also ships components of important alternative energy solutions, such as wind energy.

Agriculture

Growth in shipments of phosphate and fertilizers on CSX in the first half of 2013 is expected to continue for the remainder of the year. That growth is supported by the company's recent acquisition of the Eastern Associated Terminal, which doubles the company's footprint for global phosphate exports through the Port of Tampa.

CSX is poised to begin shipping what is expected to be a bumper crop, with several ongoing service and asset initiatives in place to support increased demand. The stored covered hoppers mentioned previously can be pulled back into service immediately to help handle the crop. CSX's 90-Car Grain Express Load/Unload program offers a financial incentive for participating customers to load or unload a unit grain train within 15 hours, greatly improving the efficiency of the grain network.

The projected large crop yield is also expected to increase the available ethanol supply at the end of 2013 and into 2014, particularly if gasoline demand increases or the blend rate increases above 10 percent. CSX continues to introduce newer, more efficient ethanol unloading terminals to help grow company market share in 2013 and beyond.

Automobiles

The overall automobile industry has seen three consecutive years of double-digit growth in U.S. vehicle sales, and the North American light vehicle production forecast is 16.2 million units. CSX is well-positioned to meet increasing customer demand, with industry-leading service and vehicle distribution centers that efficiently and effectively process vehicles across the automotive network. That network is optimized to minimize touch points, which reduces intermediate handling and contributes to damage-free delivery. CSX is investing in conventional tri-level cars and is taking delivery of convertible multi-level autoracks to rapidly adapt to changes in market conditions. CSX is the second-largest contributor to the North American multi-level reload pool administered by TTX.

Chemicals

The chemical business is an important indicator of broader economic activity, and the rail industry handles many commodities that contribute to the production of a wide variety of industrial and manufacturing products. Broadly, the market on CSX continues to grow slowly, consistent with overall economic growth. The shipment of plastics and feedstock remains relatively stable with slow growth indicative of the broader market. Historically low domestic natural gas prices present the opportunity for a resurgence in the production of various petrochemicals in the United States over the next several years.

Looking Forward

Railroads, including CSX, are well-positioned to meet the expected increases in demand over the next decades – if the regulatory framework allows the industry to continue historically high levels of investment into their networks to ensure the safety and reliability of service.

In the fall, the Board will hear public comments on Ex Parte 711. CSX continues to strongly urge the Board to consider the industry's concerns about this proposal. The industry's ability to reinvest reflects the capital market's perception that railroads are built on strong financials and market-based results. Thanks to the Board's vision and current policies, the balanced regulatory framework supports growth and the development of American commerce. Meeting the needs of the American population between now and 2040, and beyond, requires the continuation of this balanced regulatory approach with a long-term view from the STB.

Very truly yours,

Michael Ward

Michael Ward
Chairman, President and CEO
CSX Transportation Inc.

cc: The Honorable Ann D. Begeman, Vice Chairman
The Honorable Francis P. Mulvey, Commissioner
Mr. Ed Hamberger, Association of American Railroads